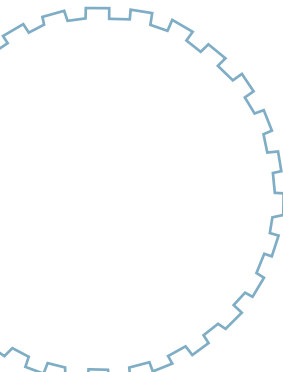




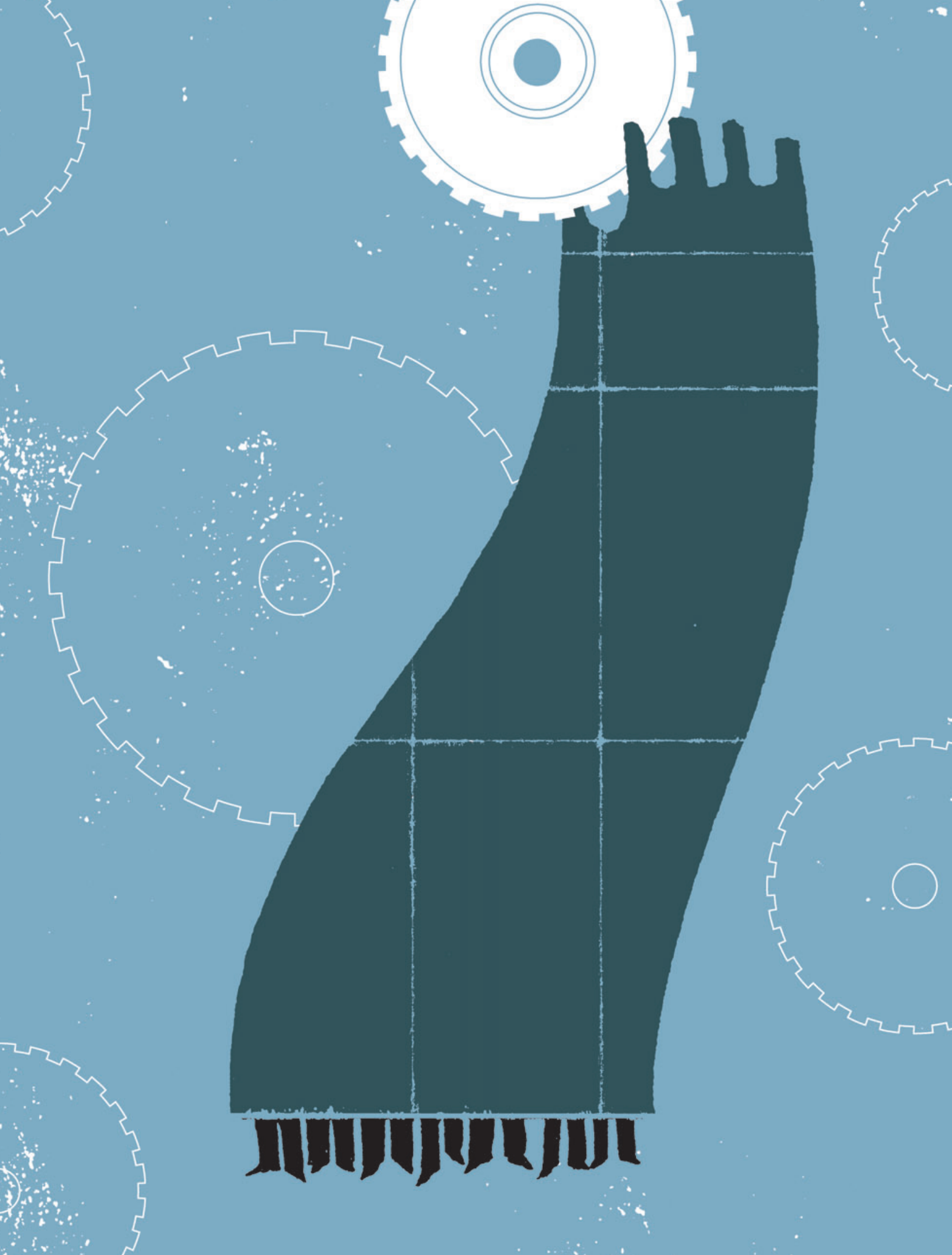
How to Implement a New Strategy Without Disrupting Your Organization

Strategic dreams often turn into nightmares if companies start engaging in expensive and distracting restructurings. It's far more effective to choose a design that works reasonably well, then develop a *strategic system* to tune the structure to the strategy.

by Robert S. Kaplan and David P. Norton



THROUGHOUT MOST OF MODERN BUSINESS history, corporations have attempted to unlock value by matching their structures to their strategies. As mass production took hold in the nineteenth century, for instance, companies generated enormous economies of scale by centralizing key functions like operations, sales, and finance. A few decades later, as firms diversified offerings and moved into new regions, a rival model emerged. Corporations such as General Motors and DuPont created business units structured around products and geographic markets. The smaller business units sacrificed some economies of scale but were more flexible and adaptable to local conditions.



These two business models – centralized by function versus relatively decentralized by product and region – proved durable for a long time, largely because the evolution of business organization was fairly incremental. Indeed, the product division structure remained the dominant model for 50 years or more. But as competition intensified in the last quarter of the twentieth century, problems with both models became apparent, and companies searched for new ways to organize themselves to unlock corporate value.

Many multinationals adopted a matrix arrangement in the belief that they could retain both the economies of scale of centralized functions and the flexibility of their product-line and geographic business units. But matrix organizations were difficult to coordinate. Managers operating at a matrix intersection had to juggle the dictates of two masters, which led to conflict and delay. The business process reengineering movement of the 1990s

challenges that globalization affords are forcing companies to revisit many assumptions about the control and management of both their physical and their intangible assets. Today's computer company, for example, can manufacture components in China, assemble them in Mexico, ship them to Europe, and service the purchasers from call centers in India. This dispersal creates demands for new structures to align internal and outsourced units around the world.

As companies have struggled with these issues, many have gotten caught up in expensive and frustrating cycles of organizational change. ABB is a classic case: The company went through one reorganization after another following its first experiment with the matrix form in the late 1980s. As Pankaj Ghemawat of Harvard Business School describes in his November 2003 HBR article, "The Forgotten Strategy," this restructuring churn is expensive and often creates new organizational problems as

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introduced another model, in which the corporation organized around its various processes instead of its traditional functional, product, and geographic boundaries. But multiple process-focused units still had problems coordinating and aligning their activities; a silo is a silo whether it is a business process, a function, or a product group. More recently, we've been hearing about "virtual" and "networked" organizations operating across traditional boundaries and the "Velcro organization," a company capable of being pulled apart and reassembled in new ways to respond to changing opportunities.

The continual search for new organizational forms is driven by basic changes in the nature of competition and the economy. First, advantage today is derived less from the management of physical and financial assets and more from how well companies align such intangible assets as knowledge workers, R&D, and IT to the demands of their customers. Second, the opportunities and chal-

bad as the ones they solve. It takes time for employees to adapt to new structures, and a great deal of tacit knowledge – precisely the kind that's become most valuable – gets lost in the process, as disaffected employees leave. On top of that, companies get saddled with the vestiges of previous organizational decisions, such as obsolete local and regional headquarters and legacy IT infrastructures. Given the costs and difficulties involved in finding structural ways to unlock value, it's fair to raise the question: Is structural change the right tool for the job?

We believe the answer is usually no. The lesson we've drawn from our work with hundreds of organizations on strategy maps and balanced scorecards is that companies do not need to find the perfect structure for their strategy. As we will demonstrate in the following pages, a far more effective approach is to choose an organizational structure that works without major conflicts and then design a customized strategic system to align that structure with the strategy.

We will see how two very different organizations – DuPont Engineering Polymers and the Royal Canadian Mounted Police – took their existing structures as given in the belief that tinkering and realigning authority, responsibility, and decision rights would not produce the magic needed to achieve corporate-level synergies. Instead, executives in these two organizations used the tools of the bal-

*Robert S. Kaplan (rkaplan@hbs.edu) is the Baker Foundation Professor at Harvard Business School in Boston. David P. Norton (dnorton@bscol.com) is the founder and president of the Balanced Scorecard Collaborative, a Palladium company, in Lincoln, Massachusetts. This article is drawn from their latest book, *Alignment*, forthcoming from the Harvard Business School Press.*

anced scorecard strategy management system to guide the decentralized units in their search for local gain even as they identified ways for them to contribute to corporate-wide objectives.

What Kind of System Do You Need?

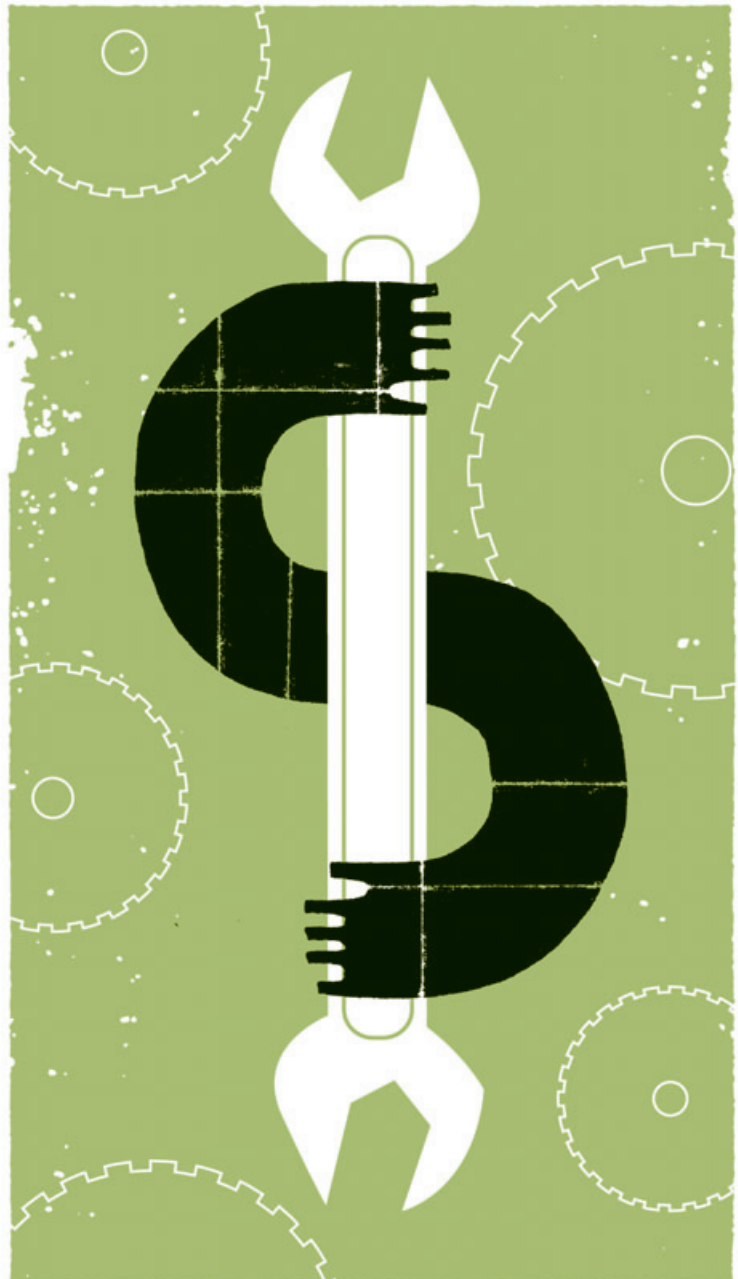
A management system can be defined as the set of processes and practices used to align and control an organization. Management systems include the procedures for planning strategy and operations, for setting capital and operating budgets, for measuring and rewarding performance, and for reporting progress and conducting meetings. It is fair to say that, historically, most companies have relied entirely on financial systems – usually centered on the budget – for these various processes and practices. But relying on the budget as the primary management system caused short-term financial considerations to overwhelm longer-term strategic goals. In the 1980s and 1990s, many companies introduced total quality management as a new management system. But while TQM enabled firms to focus more effectively on process improvements, the ability to implement strategy across organizational units remained elusive. Companies' management systems were still tactical and operational, not strategic.

In our experience, a management system based on the balanced scorecard framework is the best way to align strategy and structure. Managers at every level in the corporation, from regional sales managers to group CEOs, can use the tools of the framework to drive their unit's performance. Strategy maps enable managers to define and communicate the cause-and-effect relationships that deliver their unit's value proposition, and the scorecard is a powerful tool for implementing and monitoring the unit's strategy. A balanced scorecard-based system, therefore, provides both a template and a common language for assembling and communicating information about value creation. (We refer readers unfamiliar with the balanced scorecard framework to our book *The Strategy-Focused Organization*, Harvard Business School Press, 2000).

Most of our writings have centered on implementing strategies for business units, with their unique customers, competitors, technologies, and workforces. More recently, corporations have applied the framework to their corporate-level strategy to describe how the

headquarters creates value beyond what its individual business and support units generate on their own. The corporate scorecard and map identify and measure the sources of corporate value creation at each of four levels, or "perspectives" – financial, customer, process, and learning and growth.

The financial perspective. Even diversified holding companies can create enterprise-level value by instituting effective processes for resource allocation, for corporate governance, for acquiring and integrating new business units, and for conducting negotiations with external entities such as governments, unions, capital providers, and suppliers. It is precisely by doing these things well that



companies create financial synergies. Enterprises with holdings as diverse as those that make up Kohlberg Kravis Roberts and General Electric add value through savvy acquisitions supported by robust governance processes.

The customer perspective. Corporate synergies can also be generated by leveraging relationships across multiple business units to offer common customers lower prices, greater convenience, or solutions more complete than specialized competitors can provide. For example, Media General implemented an effective convergence strategy by sharing editorial processes and advertising content among its regional television stations, newspapers, and interactive online media properties. This cross-unit integration created a unique value proposition for the common customers—advertisers and subscribers—that was better than any single property could offer on its own. Customer synergies also arise when retail companies like hotel chains, consumer banks, or quick-service restaurants consistently deliver the same value proposition across a geographically dispersed network of retail outlets. Hilton Hotels and McDonald's are good examples here.

The process perspective. The third balanced scorecard perspective describes corporate synergies gained when multiple business units reap savings by sharing common processes, such as purchasing, manufacturing, distribution, and research. More than a century ago, Standard Oil created a dominant advantage through the scale economies of its large refineries and distribution system. Today, megabanks like Citigroup and Bank of America create scale economies by integrating and consolidating the back-office operations and computer systems of the financial institutions they acquire. Companies can also capture process economies of scope by exploiting core competencies in specific technologies—such as optics, miniaturization, or displays—across multiple business units. For example, Canon incorporates its world-class optics capabilities into products as diverse as cameras, binoculars, copiers, medical-imaging devices, and semiconductor photolithography equipment.

The learning and growth perspective. The final perspective enables corporations to exploit their scope to create enterprise-level value from activities related to human capital development (including recruiting, training, and leadership development activities) and to knowledge management (such as IT-based systems for capturing, storing, and communicating knowledge and best practices throughout diverse organizational units). By focusing on the career development opportunities available in its far-flung product and geographic units, for example, GE has created a formidable and hugely valuable cadre of managers at all levels. Since intangible assets can account for 80% of an organization's value in today's knowledge economy, the corporate benefit from effective cross-unit collaboration—to develop human capital, for example—is a huge driver of enterprise-level synergies.

Putting It All Together: Strategic Themes

Implementing a corporate strategy system based on the balanced scorecard is not as simple as just requiring managers in all business and support units to create individual local scorecards and then somehow adding them all together. Nor should a corporate scorecard simply be replicated down the organization without considering the different operating realities of each unit.

Headquarters aligns corporate and business-unit strategies by first articulating its theory of synergy and then encouraging the business units to develop strategies that contribute to those enterprise-level objectives while simultaneously addressing their local competitive situation. It is here that the bulk of the companywide systems currently used for measuring performance and allocating responsibilities fail. Most such systems—take the budgeting system, for instance—emphasize locally controllable measures and actions. But this emphasis encourages business units and functions to become silos that perform well on their local measures but fail to contribute to divisional and corporate synergies. ABB's restructuring failures can be partially attributed to its continuing use of the budgeting system as the primary coordinating mechanism for its complex matrix structures.

By contrast, the diversified company Ingersoll-Rand uses a corporate strategy map and balanced scorecard to foster what CEO Herb Henkel calls “dual citizenship,” in which all employees not only are members of their individual business unit but also have a responsibility to contribute to corporate priorities. That's because every unit's strategy map and balanced scorecard are linked to the corporate scorecard. In this way, managers in each unit have clear measures and targets that tie their own activities to the enterprise value proposition.

Several organizations have adopted a particularly effective way to communicate corporate priorities to business and support units. They identify three to five *strategic themes* to describe the enterprise value proposition. Each theme consists of a vertical chain of cause-and-effect relationships linking objectives, measures, and initiatives that span the four balanced scorecard perspectives. The collection of strategic themes articulates how business and support units can work together to create the synergies necessary to realize the enterprise's value proposition. Local managers use the themes to link their local strategies and determine the cross-unit collaboration required to deliver on this value proposition.

To see the power of a strategic theme, consider a large financial services company whose value proposition is to offer a full range of affordable products and services to the mass market. It might break down that proposition into three distinct strategic themes: Lower the cost of serving existing customers, acquire profitable new cus-

tomers, and deepen relationships with customers by cross-selling them additional products and services.

The exhibit “Mapping a Strategic Theme” shows how the cross-selling theme is represented by linked objectives, measures, and initiatives stretching across the four perspectives. Each objective and measure in the theme is supported by one or more strategic initiatives. The complete portfolio of strategic initiatives defines the resources and actions required to implement the strategic theme. The theme’s learning and growth objective, for example, involves developing new skills for employees (relationship management and financial planning), introducing new information systems (customer databases and financial-planning systems), and aligning employees’ personal goals and incentives to motivate them to achieve a process objective of investing more time with high-potential customers. The theory underlying this strategic theme is that if the learning and growth objectives are achieved, employees will be able to cross-sell customers more complete financial solutions (at the process level), which will increase the company’s share of the customers’ financial transactions and investment dollars (at the customer level), ultimately leading to higher revenues and margins (at the financial level).

It’s one thing to set down a number of themes on paper, another to actually use them as the basis for corporate strategy. To do so, the company follows several implementation steps. First, through the strategic themes on its corporate-level strategy map, top executives articulate the theory for corporate advantage – how the whole is more valuable than the sum of the parts. Second, they assign a senior executive to be responsible for each strategic theme. Typically, this executive also has another line or staff position, since being a theme owner is a part-time job. The theme owner’s role is coordi-

nation and monitoring; the ultimate responsibility for execution remains with the business units. Theme owners oversee and approve the way the theme’s objectives, measures, and targets are applied to the operating units’ strategy maps and scorecards. They convene periodic meetings, drawing on individuals from all the affected business units, to review progress and initiatives and revise action plans

Mapping a Strategic Theme

A strategic theme groups together different corporate-level objectives, measures, and initiatives across the various perspectives of the balanced scorecard framework. The first column shows for each perspective how the value-creating objectives are linked to the theme. The next column shows for each perspective the measures and targets needed to realize the appropriate aspect of the theme’s objectives. The final column lists specific cross-unit or cross-functional projects aimed at realizing synergies for each perspective and the dollars budgeted for them.

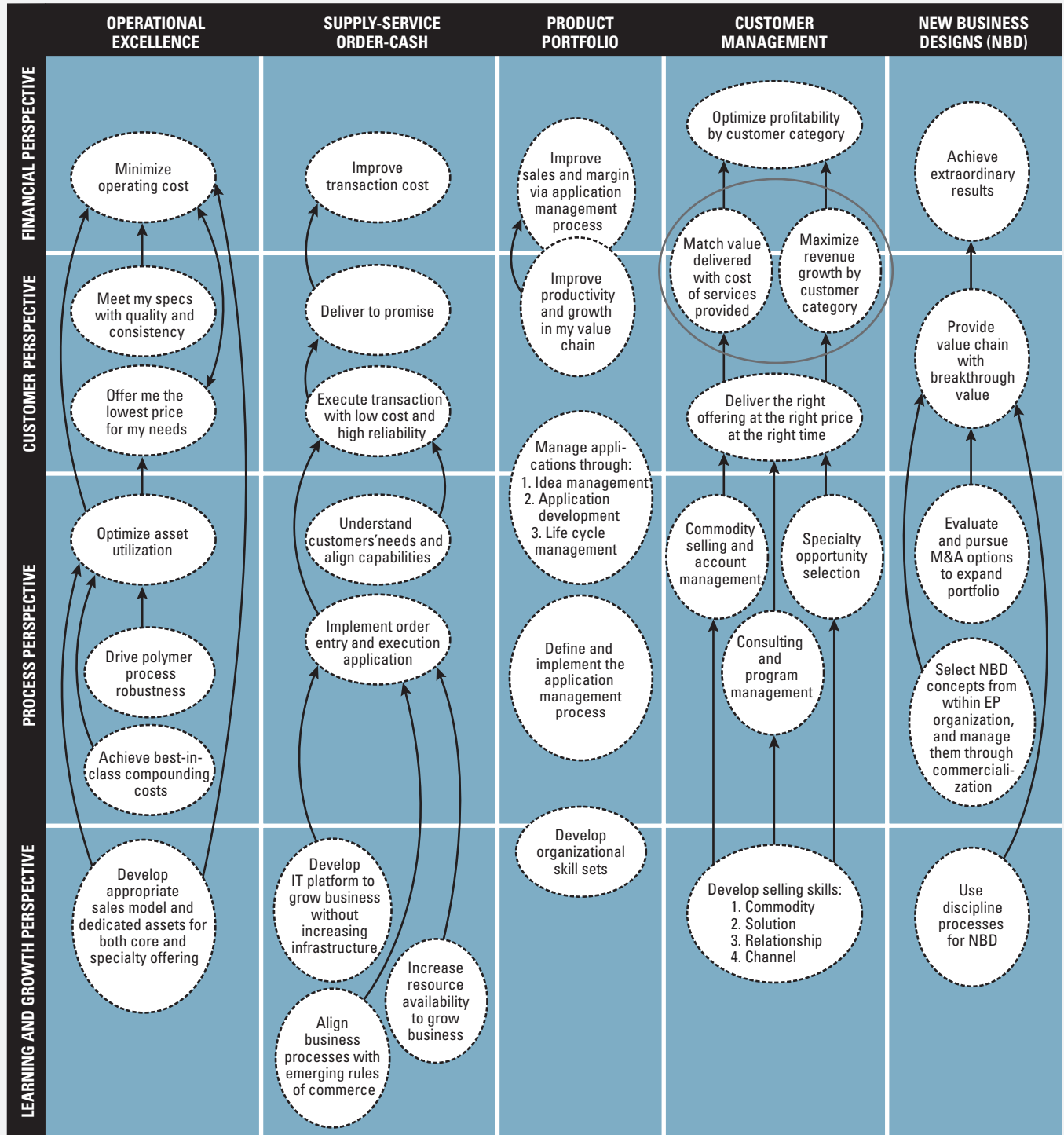
THEME: CREATE DEMAND THROUGH CUSTOMER PARTNERSHIPS					
	STRATEGY MAP	BALANCED SCORECARD		ACTION PLAN	
		MEASURE	TARGET	INITIATIVE	BUDGET
FINANCIAL PERSPECTIVE	Increase revenues and margins	• Revenue mix • Revenue growth	New = + 10% + 25%		
CUSTOMER PERSPECTIVE	Increase share of customers’ financial transactions	• Share of segment • Share of wallet • Customer satisfaction	25% 50% 90%	• Segmentation initiative • Satisfaction survey	\$ _____ \$ _____
PROCESS PERSPECTIVE	Cross-sell the product line	• Cross-sell ratio • Hours with high-potential customers	2.5 1 hr/Q	• Financial-planning initiative • Integrated product offering	\$ _____ \$ _____
LEARNING AND GROWTH PERSPECTIVE	Create organizational readiness	• Human capital readiness • Strategic application readiness • Goals linked to BSC	100% 100% 100%	• Relationship management • Certified financial planner • Integrated customer file • Portfolio-planning application • MBO update • Incentive compensation	\$ _____ \$ _____ \$ _____ \$ _____ \$ _____ \$ _____
TOTAL BUDGET					\$ _____

Mapping Corporate Strategy at DuPont

DuPont's Engineering Polymers (EP) division created a corporate-level strategy map that consisted of five distinct themes, each represented by a vertical chain of cause-and-effect relationships that spans the four balanced scorecard perspectives. For instance, the

financial objective for the theme of operational excellence is to minimize operating costs, which will require optimizing asset utilization at the process level, which in turn requires integration with a new sales model, described in the learning and growth perspective.

MAXIMIZE SHAREHOLDER VALUE



related to theme objectives. And they oversee data reporting and use the data to hold fact-based discussions with business unit managers about how well they are supporting the theme. In this way, all business units are held accountable not only for their local performance but also for their contribution to corporate-level strategic priorities.

Third, the executive team identifies the strategic initiatives (typically those that span business-unit boundaries) that support each theme and authorizes the resources—money and people—required to implement each initiative. Executive theme owners, along with the top management team, periodically review the performance of the initiatives and test each one's underlying theory. After all, corporate strategies and strategic themes are just hypotheses about value creation. By translating the hypotheses of a strategic theme into linked objectives and measures, executives can test the strategy and determine whether the causal connections really exist. If not, the corporate executives can and should revise the themes intended to create corporate synergy.

A balanced scorecard-based system for setting strategy and measuring performance linked together by specific strategic themes gives executives at corporate headquarters a way to communicate shared priorities and motivate people to share them in even the most complex businesses. In effect, the themes describe a virtual organization in which decentralized units pursue their local strategies while simultaneously contributing to corporate priorities. Let's turn now to look in detail at a couple of organizations that have used strategic themes in this innovative way.

Overcoming Silos at DuPont

In 2000, the DuPont Engineering Polymers (EP) division had \$2.5 billion in sales and employed 4,500 people in 30 facilities around the world. EP, like many multinational and multiproduct organizations, was having trouble implementing a coherent strategy across its eight global product businesses, three regions, and six shared service units. During the five years before adopting the scorecard, EP's profits grew at a compound annual rate of 10%, but this was achieved mainly by cutting costs and improving productivity, since annual revenue growth was stalled at only 2.5%. Craig Naylor, DuPont group vice president and EP's general manager, saw that the balanced scorecard could align all employees, business units, and shared services around a common strategy involving not only productivity improvements but also revenue growth.

EP's senior management team, with the assistance of consultant Francis Gouillart, built a divisional balanced scorecard strategy map that contained five strategic themes describing how the units could align their actions to deliver the financial objectives of revenue growth and cost reduction. Specifically EP would:

- Deploy process improvement tools such as Six Sigma to deliver significant productivity improvements.
- Through logistics excellence, reduce the order-to-cash cycle and shorten lead times for customers.
- Focus on producing and selling existing products and applications with the highest margins, and introduce new products and applications.
- Bring complete solutions to targeted customers by offering a unique package of robust products, low cost, and excellence in supply.
- Devise entirely new ways of reaching and servicing end-use customers.

The sequence of themes corresponded to the time frames required for successful implementation: Improving operating processes and logistics would deliver results in the near term (nine to 15 months). It would take two to three years to create new portfolios of products that could provide more complete customer solutions. Realizing the benefits of developing and installing an entirely new business model to reach new customers would take three to four years.

DuPont EP viewed the five themes as the DNA of its strategy, the code that would be embedded in every business unit and shared service unit. It developed strategy maps and assigned a senior manager for each theme (the maps for each are shown in the exhibit "Mapping Corporate Strategy at DuPont"). It then cascaded the high-level strategic themes down the organization. Each major geographic region and product unit built its own scorecard, which highlighted its unique objectives and initiatives for local strategy but also made clear how it would implement the five themes locally. This approach made opportunities for synergy across business units far more visible. And all six support units built their scorecards to further the business units' strategies.

EP, however, faced a classic conflict. The local units and their employees wanted to focus on running their businesses efficiently day-to-day. It was difficult to get them to pay attention to initiatives relating to EP's five new strategic themes amid all the other programs already under way. So EP "encouraged" its local managers to halt any project that was not contributing to one or more of the five themes. By cutting down the clutter of daily operations, EP freed up space for new (but still local) initiatives that would support the divisional strategic themes and embed them in employees' routines.

The new attitude soon manifested itself in EP's interactions with one of its largest customers, a manufacturer of plastic moldings. The fourth theme required EP's product managers to better align themselves with their customers so they could transform a previously transactional relationship, in which price was the principal topic of dialogue, into a strategic partnership. Accordingly, EP's product managers from several units participated in a workshop with the large customer to build a balanced scorecard that

Mapping strategic themes is particularly well suited to the public sector, where organizations have limited political freedom to experiment with structural change.

described the benefits that could accrue from an improved relationship between the two companies.

In the course of the workshop, the plastics manufacturer expressed frustration with its own product design processes, particularly the long time required to fix problems detected in early prototypes. The workshop concluded with a decision that DuPont should take over the process of developing new plastic parts inside some of the customer's facilities. The manufacturer felt that EP would do a better job because DuPont had a more holistic understanding of plastic materials and their manufacture. This initiative was a clear success for the theme of building complete solutions for customers.

An often fatal weakness of a matrix organization is the endless debates among business units, functional departments, and geographical regions about resource allocation. EP reported that the clarity of the five strategic themes, cutting as they did across units, regions, and functions, highlighted corporate priorities effectively and made it easier to understand why resources were allocated the way they were. This led to more productive discussion and dialogue based on a shared understanding of the fundamental drivers of overall business performance. Individuals used the scorecard architecture and measures to gain support for agendas and projects. Enthusiasm and constructive discussions pervaded the organization because of that shared understanding of strategy.

Coordinating Diversity in the Royal Canadian Mounted Police

Public sector enterprises also find strategic themes powerful for getting their diverse units to cooperate so that they can achieve outcomes collectively beyond what the units would accomplish independently. The approach is particularly well suited to this sector, where organizations are often hugely diverse and at the same time are limited politically in their freedom to experiment with structural change.

Consider the Royal Canadian Mounted Police, with its 23,000 employees and a C\$3.3 billion annual budget. The RCMP operates at four levels – international; national; provincial/territorial; and local (over 200 municipalities, hundreds of rural communities, including 566 aboriginal communities). In 2000, the RCMP faced several challenges.

There were budgetary constraints, and its resources were still not adequate for the policing environment of the twenty-first century. A new RCMP commissioner, Giuliano (Zack) Zaccardelli, felt passionately about improving management; he had a vision that the RCMP could become a strategically focused organization of excellence. Even with his strong centralized leadership and vision, however, Zaccardelli faced the challenge of getting all RCMP units, scattered across an enormous land mass, to align with, and contribute to, corporate-level priorities.

A senior-level project team at the RCMP launched a process to translate the mission (“safe homes, safe communities”) into something operational that could be understood by the highly motivated but also very tactical police officers throughout Canada. The heart of the strategy for delivering on the mission was contained within a set of five overarching corporate-level strategic themes that formed part of the process perspective and went beyond everyday policing activities:

- Reduce the threat and impact of organized crime.
- Reduce the threat of terrorist activity in Canada and abroad.
- Reduce and prevent youth involvement in crime, both as offenders and as victims.
- Effectively support international operations.
- Contribute to safer, healthier aboriginal communities.

The five themes required national-level strategic coordination. Accordingly, the RCMP developed a separate strategy map for each, with its own initiatives, targets, and measures. Each theme was assigned a senior RCMP executive owner, who organized periodic meetings of local and national managers to review progress against the theme's targets. Once the strategy maps and scorecards for the corporate-level strategy and the five strategic themes were completed, the cascading process to local units could commence. Each local divisional unit selected up to ten objectives for its own strategy that customized the high-level themes to the specific realities of its operations. In addition, the local strategy maps incorporated the division's normal policing responsibilities.


Because no single organizational unit had complete ownership, responsibility, or accountability for any of the themes, the process promoted cooperation and integration among previously independent local, provincial, and national policing units, allowing them to share lessons

learned and best practices. In one case, for example, a central functional group – the Criminal Intelligence Directorate – contributed to a theme in a way it would never have done before to reduce drug traffic in several aboriginal communities. Initially, the strategic theme for making aboriginal communities safer focused on building better relations with them in order to meet their specific needs. But when the Criminal Intelligence Directorate was brought into the strategy, it identified a need to focus as well on identifying criminal threats that were preying on the communities. Accordingly, in 2005, the RCMP undertook a major investigation that disrupted the delivery of drugs to several isolated northern aboriginal communities. Prior to identifying “safer, healthier aboriginal communities” as a strategic theme, the central group would probably not have concentrated efforts toward what otherwise might have been considered a lower-level street drug-trafficking problem.

Not every unit contributes to all themes equally, of course. In the Northwest Territories, for instance, the threat of terrorist activity would be low, so its strategy map does not contain objectives supporting this strategic theme. But the unit could certainly play a vital role in reducing youth involvement in crime and creating healthier aboriginal communities. Conversely, an RCMP unit based in Toronto may not be able to make a great contribution to aboriginal communities but would be a central player in reducing threats from organized crime and terrorist activity. In this way, all units played a role in delivering on RCMP strategic priorities beyond their day (and night) job of local policing. Collectively, the results of initiatives outlined in the strategy maps were impressive, as the exhibit “Measuring Satisfaction with the Mounties” demonstrates.

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Both DuPont EP and the RCMP were able to use corporate scorecards and strategy maps organized around strategic themes to realize the enormous value that their portfolio of assets, people, and skills represented. As a result, they did not have to endure the rigors of a painful series of changes that simply replaced one rigid structure with another. They realized that a more flexible and less disruptive approach was to create a management system to serve as the interface between strategy and structure. Of course, motivating business units around strategic themes is not the only way of

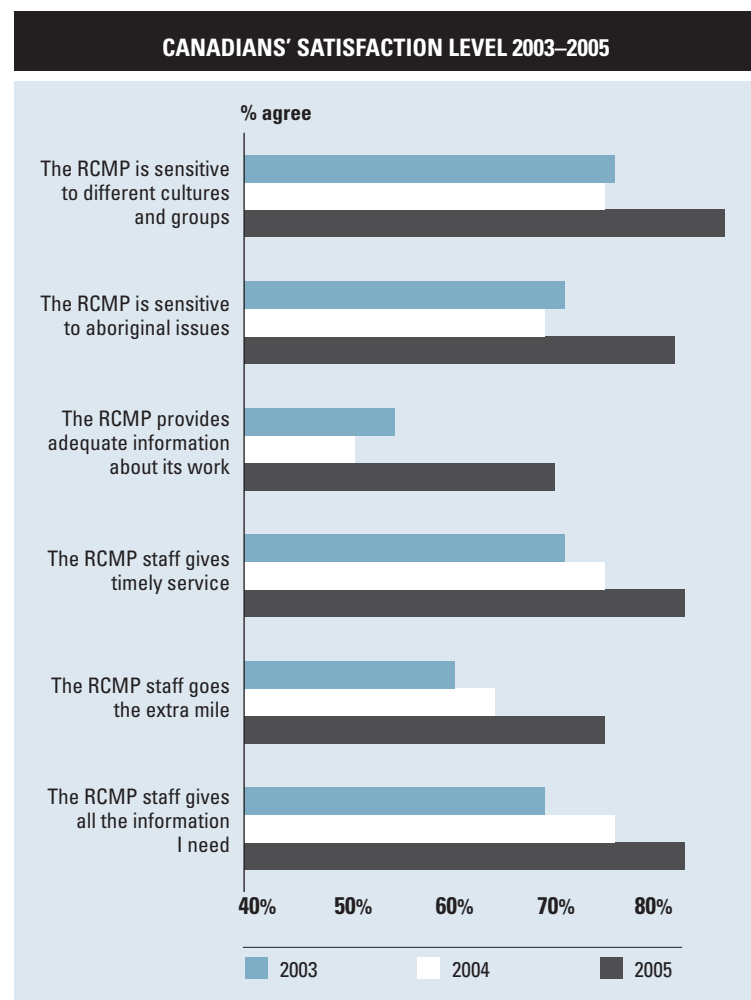
doing this – nor for some corporations will it be the most appropriate way. But there’s no doubt that a strategic theme’s vertical links across balanced scorecard objectives, measures, and initiatives creates an extraordinarily powerful system for uncovering opportunities for value creation, for communicating corporate priorities to local units, and for facilitating reviews of resource allocation, strategy, and management effectiveness. As companies look for ways to implement corporate-level strategies, they now have a new tool to consider. 

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To order, see page 151.

Measuring Satisfaction with the Mounties

Since the Royal Canadian Mounted Police instituted its balanced scorecard approach to realizing its broad vision of “safe homes, safe communities,” the public’s level of satisfaction with the force has risen.



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